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THE BANKER

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THE
BANKER

VOL. LVII MARCH, 1941 NO. 182

SIR CHARLES LIDBURY
(Chief General Manager and a Director of the Westminster Bank)

A Banker's Diary

Banks and Stock Exchange Commissions

THOUGH the banks have naturally not made known officially their views on the reduction in Stock Exchange commissions to agents announced this month, it is safe to conclude that these alterations would not have been introduced without the tacit approval of the banking community. In future, the country broker will be the only type of intermediary bringing business to the Stock Exchange who will continue to retain one-half of the gross commission. The banks, like " remisiers " and Stock Exchange clerks, will henceforth receive only one-third, while the share of all other agents is to be cut from one-third to one-quarter. By general consent, this reduction in commissions is altogether reasonable in view of the rising costs of Stock Exchange firms, which on the average absorb as much as one-third of the gross commission. While an institution which debars its members from advertising depends on the services of outside agents, it is obviously unreasonable that the latter should earn for merely introducing business three times as much as the Stock Exchange firm which does the actual work. As is pointed out in the official explanation of the new rules : " It is the Stock Exchange alone which provides the central and indispensable factor in every transaction, namely, the jobbing market in stocks and shares . . . . No transaction in quoted or listed securities can take place, either inside or outside the Stock Exchange, without reference to the prices that are established by that market." It is the cost of maintaining this market, with its unique facilities, which is held to justify the reduced basis for the division of commissions. It is London's role as the only ultimate market which also justifies another change, namely, the refusal of direct access to the London market to the parasitic type of provincial jobber who seeks to marry deals in a few securities which happen to be active at any particular time, while relying on London to absorb the balance of stock which cannot be married and to make a price under any and all conditions.

WHILE there will be general approval for the principle of requiring intending agents to seek admission to a register, open only to persons professionally or habitually employed in handling Stock Exchange business, there is one point in the registration proposals which is extremely difficult to understand. A register of banks is, of course, already in existence and it is stated that while the names now upon it will be open to revision, no new names will be added. It is difficult to see by what right or with what object the Stock Exchange proposes to refuse recognition of their due status to any new banks which might be set up in future. No doubt the establishment of new domestic banks is rather improbable, but it can readily be foreseen that if international trade should revive after the war, large numbers of overseas banking institutions might wish to establish themselves in London. Such enterprises might be severely handicapped if they were denied the right to share Stock Exchange commissions, which in some cases might even be the determining factor in their decision whether to set up business in London or not. Since the Stock Exchange Committee officially disclaims for itself any claim to a monopoly of jobbing, it is difficult to see why it should seek to discourage fresh competition in banking.

Discrimination against New Banks

IN these days so small a proportion of our total expenditure is covered by taxation that the prospect of a revenue surplus or deficit has lost most of its pre-war significance. The trend of revenue is nevertheless not entirely without interest. The indications at present, unfortunately, are that the buoyancy of revenue has been considerably over-estimated in most quarters. This is undoubtedly an aftermath of the excellent results achieved during the first nine months of the financial year, when revenue receipts showed an expansion of no less than 38 per cent. against the corresponding period of 1939/40. Since the full year's estimate of £1,360 millions represents an increase of only 30 per cent. on last year's realized total of £1,049 millions, this meant that an increase of only 20 per cent. in receipts during the final revenue quarter would be sufficient to realize the Chancellor's expectations. After

Revenue Surplus Doubtful

the turn of the year, however, the trend became decidedly disappointing, the aggregate receipts of £330·4 millions in the period to February 8 representing an increase of only 13 per cent. on the figure for the corresponding period a year earlier. In the following week, however, receipts showed an expansion of 27½ per cent., a rate of increase which would be almost sufficient to realize the estimate for the year. On February 15 only £225 millions was still needed for this objective to be achieved, or 31 per cent. more than in the corresponding period a year ago. On the whole, the probabilities are that the final outcome for the year will be a small revenue surplus. Quite apart from the possibility of substantial sweepings from miscellaneous receipts on the final weeks of the year, the chief cause of the poor showing during January was undoubtedly the introduction of the new system of tax deductions at source. While this tends to damp down the normal flood of payments after January 1, it means that the inflow of income tax on a high level will be correspondingly prolonged during the final weeks of the financial year.

Check to Credit Expansion

THANKS to the seasonal inflow of revenue, credit expansion came to a welcome if only temporary halt during January. The clearing bank figures, as will be seen from the table below, showed deposits at £2,756·6 millions, a decline of £43·4 millions from the December peak. To the extent of £22·9 millions, the apparent decline reflects merely a contraction in items in transit from

	Jan., 1941	Change on Month £ (millions)	Change on Year
Deposits	2,756·6	− 43·4	+ 347·1
Cash	279·1	− 45·3	+ 37·6
Call money	130·6	− 27·9	− 23·4
Discounts	269·2	+ 4·3	− 118·6
Treasury deposits	340·5	+ 27·0	+ 340·5
Investments	789·2	+ 17·8	+ 178·9
Advances	909·5	+ 3·5	− 87·7
Acceptances	105·6	+ 2·6	− 13·9
	%	%	%
Cash to deposits	10·12	− 1·47	+ 0·10

their abnormally high end-year level, so that the true decline is only £20·5 millions.

The decline in deposits is the resultant of several movements, of which the largest is a drop of £45·3 millions in cash, reflecting a return of the credit base to a more normal level after a usual end-year expansion, due largely to Ways and Means borrowing from the central bank in replacement of the Treasury bills which the banks and the market allowed to run off over the turn of the year. Since the Treasury's receipts during January were more than sufficient for its current requirements, the increase of £27·0 millions in Treasury deposits and the further rise of £17·8 millions in bank investments to their new peak level of £789·2 millions may perhaps be regarded as fresh borrowing used to repay this special end-year accommodation. The main counterpart of the contraction in deposits then becomes the decline of £27·9 millions in call money, which is clearly related to the exceptionally low allotments of Treasury bills secured by the discount market in recent weeks. After an almost continuous decline for the preceding nine months, advances show a slight recovery, but it is probable that the downward trend will be resumed during the coming months, as the factors making for a decline in the outstanding total of loans—mainly repayment of pre-war advances and the financing of much war production directly by the Government—can hardly have spent their force.

Credit Immobilisation

THE major influence on credit this month has been the exceptionally high receipts of the Treasury from taxation and other sources. In the early days of the month, as will be seen from the table overleaf, public deposits showed a sharp drop of £18.6 millions, reflecting the redemption of the maturing Treasury Ones and the disbursement of interest on the Consols Fours. This release of funds was, however, almost completely neutralized by a reduction in the securities holding, so that credit conditions remained fairly tight. In succeeding weeks the renewed accumulation of funds on public accounts imposed a continuing strain on the banks' cash reserves. In the fortnight to February 19, public deposits shot up by close on £18 millions, and although this immobilization was at

first neutralized by purchases of securities, bankers' deposits by February 19 had been reduced to the comparatively low level of £103.5 millions.

ANALYSIS OF BANK RETURNS

	Public Deposits	Reserve	Total Securities	Bankers' Deposits
	£m	£m	£m	£m
Jan. 29	32·4	32·0	179·2	107·9
Feb. 5	13·8	30·2	164·0	110·8
12	23·9	29·4	178·4	110·6
19	31·7	30·0	175·6	103·5
26	14·6	28·4	179·1	121·7

In the circumstances, the clearing banks have naturally been somewhat less eager buyers of bills than usual, and for this reason the discount market has perhaps had less cause to bemoan the exceptionally low allotment of bills it has secured at the weekly tenders. The syndicate quota reached a fresh nadir at the tender of February 7, when the syndicate apparently refrained from tendering at £99 15s. 1d. for the 88-day Tuesday bill, as in the previous week, and secured an allotment of only 10 per cent. of its applications at £99 15s. for the 89-day bills dated on the remaining days of the week. In spite of the check to the expansion in bank deposits, total applications for Treasury bills had recovered by the end of January to around the £150 millions mark, though in the middle of February there was a modest reaction which permitted a recovery in the market quota to 28 per cent. One of the incidental results of the forced redemption of the dated Indian Government stocks should be some reduction in the competition for bills through the internal tender. If the whole of the outstanding £90 millions of these loans were held in this country, this operation should leave some £7 millions of additional bills available each week for the market. Actually, it is unlikely that more than two-thirds of the outstanding amount will be eligible for repayment out of India's London funds.

Recovery in Savings

ONE reason for the heavy inflow of funds into the Exchequer has been a gratifying improvement in loan subscriptions, the recent trend of which is analysed in the following table:

TREND OF SAVINGS

Week to:	Savings Certs. and Def. Bonds	Total "Small Savings"	War and Savings Bonds	Total Savings
1940	£m	£m	£m	£m
Dec. 3	8·7	10·8	26·4	37·2
10	9·7	13·0	20·8	33·8
17	7·9	10·8	18·7	29·5
24	5·7	6·4	9·6	16·0
31	5·1	6·8	11·8	17·6
1941				
Jan. 7	6·6	9·5	18·8	28·3
14	6·1	9·7	22·6	32·3
21	6·1	10·1	15·8	25·9
28	5·8	10·4	11·3	21·7
Feb. 4	7·0	10·6	21·5	32·1
11	8·1	12·9	18·4	31·3
18	8·2	12·3	26·3	38·6

It will be seen that after a very gradual recovery from the Christmas low, small savings shot up by as much as £2,267,000 in the week to February 11 to £12,877,000, while in the following week subscriptions to the two new tap issues showed a sudden improvement of close on £8 millions. Since the weekly deficit has been running at a level of only some £25 millions, savings alone have thus been more than sufficient for the Treasury's current requirements, quite apart from its extra-budgetary receipts. In the circumstances, there has naturally been no call upon the banks for advances against Treasury deposit receipts, the issue of which will probably not be resumed until the deposits made last September begin to mature.

Currency Smuggling from Eire

IN the past, the Treasury has pursued the wise policy of restricting the export of pound notes by travellers abroad. The limit was fixed at £25 to every sterling country of the British Empire, including Eire. For some inscrutable reason, however, the Treasury decided last month to reverse its prudent attitude as far as Eire is concerned. Henceforth, travellers to Eire are allowed to take unlimited amounts of pound notes. In reply to a question

in the House of Commons, asking whether the Chancellor of the Exchequer did not think that this relaxation would lead to a leakage of funds *via* Eire, Sir Kingsley Wood's laconic answer was " No, sir." Banking circles, however, are not at all satisfied that his assurance is well founded. Not only is there reason to suspect that, owing to the laxity of exchange control in Eire, the pound notes thus exported will find their way abroad ; owing to Eire's neutral status there is even a possibility that enemy assets might be liquidated through Irish intermediaries. It is impossible to conceive any justification for the relaxation of exchange control in relation to Eire while the £25 limit remains in force in relation to the loyal parts of the Empire.

Ration Retail Spending !

By The Editor.

GIVEN the courage to adopt novel and even revolutionary methods, this month's budget would give the Government a final opportunity to hold inflation in check. Unfortunately the Chancellor's remarks in the recent debate scarcely suggest that any use will be made of this last chance. In contrast with the realistic views expressed by some private members, Sir Kingsley Wood showed not the slightest realisation that only a complete overhaul of financial policy can now hope to save the day. Indeed, he displayed a complacency almost worthy of his predecessor, discussing the danger of inflation as still a remote contingency and urging that " upon a true analysis the danger of the so-called gap had been greatly exaggerated." In reality the broad dimensions of next year's financial problem are only too clear. Leaving aside for the moment the complicating factor of the U.S. Aid Bill, it can be said that expenditure will certainly exceed £5,000 millions, while revenue on its present basis is unlikely to yield more than £1,600 millions.

Even with a rising national income, true savings would seem to be reasonably estimated at £1,200 millions

while extra-budgetary receipts (including the proceeds of gold losses) can be placed at around £800 millions. Thus the inflationary gap which is the focus of all financial controversy can be placed with some confidence at around £1,500 millions. This is certainly not an over-estimate, and some calculations have arrived at a figure about £200 millions more. And it may be noted that if, on account of the Lease and Lend plan, expenditure falls short of the assumed total, then this is counterbalanced by an equivalent loss of revenue from gold sales, so that the size of the gap to be covered is not affected.

Could anybody seriously suggest that there is the slightest hope of raising an extra £1,500 millions by taxation or savings or any combination of the two? If voluntary savings are to provide the solution, then the flow of subscriptions will have to be more than doubled precisely at a time when people are feeling the pinch of deprivation for the first time. To find an additional £1,500 millions by taxation, again, would mean more than doubling our present total revenue—of which about one-third is derived from indirect taxation levied on precisely that type of inessential consumption which is to be curtailed most severely, while about one-third comes from income tax with a standard rate already at 8s. 6d. in the £. Nor would it be realistic to hope that part of the deficiency could be met from increased taxation and the remainder by a simultaneous increase in savings. The unfortunate fact is that any increase in taxation, especially when this is already at stringent levels, tends to be offset by a decrease in savings. Normally, the reduction in net income due to the higher taxation will be distributed between spending and saving in proportions determined by the individual's marginal propensity to consume. It is only in very special conditions that the taxpayer would reduce his consumption expenditure by the full amount of his additional tax liability, maintaining his rate of savings in full.

Indeed, in some cases an increase in taxation may lead to actual drafts on past savings. To meet tax liabilities people may decide either to run down their cash balances or to realise capital assets. In the former case they are transferring to the Exchequer money

which would normally have lain idle, the spending is no less inflationary, in its immediate effects, than an outright printing of new notes. If consumption is maintained by a sale of capital assets, on the other hand, the seller is diverting to consumption purposes other people's current savings, correspondingly reducing the flow of savings available to the Government. It may be that the danger of drafts on past savings would be greatest if the increased taxation took the form of a deferred pay scheme. To the extent that people had been saving to provide against specific contingencies in the future, they might be encouraged to regard their blocked deposits as a substitute for their accumulated savings and seek to maintain their present standard of living by drafts upon the latter.

To prevent a deferred pay scheme (or any other drastic increase in taxation) from being wholly vitiated in this way, therefore, it might be necessary to introduce all manner of restraints on the availability of past savings—such as the licensing of Stock Exchange deals and sales of real property, the blocking or rationing of withdrawals from savings accounts and even bank deposits. None of this, of course, affects the fact that with a rising national money income the flow of voluntary savings will increase to some extent side by side with a rising revenue inflow. That some proportion of the additional purchasing power will sooner or later return to the Treasury through taxation and loan subscriptions is obvious; but it should be equally evident that this retrospective mopping up of inflationary credit which has already done its part in forcing up prices in no way helps to solve the immediate problem. Savings are adequate only if they are sufficient to prevent a rise in prices, to avert the necessity for any expansion in bank credit which does not correspond to an increased demand for cash in the form of bank deposits. Even in the first year of war the savings results did not quite satisfy this test; in the second year it is out of the question that they should do so.

At this point, therefore, we seem to have reached an impasse. However, this is a problem, as the Chancellor has said, which can be approached from many angles. If financial expedients have shot their bolt, it might be suggested, let us ignore altogether the

problem of surplus purchasing power and concentrate upon mitigating the evils of inflation by an extension of rationing to a wide range of commodities. A recent investigation showed that the rationing idea was popular with a majority of the working population; and in theory there is much to be said for such a solution. Providing the necessaries of life could be distributed equitably, there would be no great harm in soaring prices of borderline goods, the actual supply of which could be restricted by direct methods to prevent any competition for resources needed for the war effort.* Unfortunately, there are two overwhelming objections to this method. In the first place, rationing is a highly inefficient method of distribution for any but the most elementary and homogeneous goods in universal demand. Secondly, a scheme involving a multitude of variegated coupons would be at the best cumbersome and at worst altogether unworkable.

By a process of elimination, therefore, one is forced to consider the only remaining solution which has been put forward—namely, the Kalecki plan for an overall rationing of individual expenditure in the shops. The suggestion is that total maximum expenditure in retail shops should be fixed at, say, 25s. a week for an adult and 15s. for a child under 14. For purposes other than the purchase of goods in the shops, it will be noted, people would remain free to dispose of their income very much as at present. In particular, expenditure on services would not be included in the scheme, either because they are not scarce (e.g., education and entertainments) or because they can if necessary be controlled more simply by direct methods: for example, "dwelling space by billeting; travelling by reducing the number of trains and abolishing first-class; gas and electricity by direct rationing; domestic services by

* Prices of inessentials might be adjusted by successive increases in the purchase tax on luxuries to the rising monetary demand resulting from inflationary finance. This could be supplemented by a system of competitive tenders for the limited quantity of raw materials allocated for civilian use. To a large extent, the increase in price would then accrue to the Treasury, thus preventing a profit inflation in these industries and reducing their power to bid up for labour and other resources.

fixing a maximum number of servants," and so on. In addition, certain categories of goods—such as medicines, newspapers and books, repairs—would be available for purchase free of coupons, while allowance would be made for special cases, such as the replacement of goods destroyed by bombing. A further adjustment, it is suggested, is that the coupons required for the purchase of meals in restaurants should be only a certain definite proportion of their price, since the latter includes the cost of service.

In considering this plan, two main questions have to be answered. First : is it practicable ? Second : would it, as its originator claims, provide that sure safeguard against inflation which is otherwise so difficult to discover ? Obviously, the administration of the scheme would present some difficulties, but these do not appear to be of any higher order than those involved, for example, in the food rationing schemes or the administration of the purchase tax. A flat-rate issue of coupons could clearly be arranged on very much the same lines as for the rationing of individual commodities. To ensure that goods were not sold without coupons, Mr. Kalecki proposes the establishment of a Retailers' Controlling Office, to which retailers would return the coupons collected from the public, receiving in exchange "retailers' coupons" which they would in turn surrender to wholesalers when replenishing their stocks. The wholesalers, in their turn, would be required to surrender to the authorities "retailers' coupons" covering their full turnover as ascertained for payment of purchase tax. Retailers, clearly, would have to surrender "consumer coupons" equal to the full retail value of their turnover, plus the normal retail margin and plus the value of any sales from stock (or less the value of any additions to stock). Thus the enforcement of the scheme would require some inspection of retail stocks and also supervision to see that the normal retail mark-up was being included in the coupon totals. Presumably this task could be carried out by not too unwieldy an inspection staff.

A more fundamental difficulty which Mr. Kalecki foresees is that of preventing a market in expenditure coupons. Given a flat rate issue, people of low income

might not be able to use their quota fully and might wish to sell the residue to the well-to-do in exchange for ordinary currency, which they could use either for types of expenditure outside the scheme or for retail spending in a later period. To prevent such transfers, it is suggested that the fixed expenditure maximum should be supplemented by a second provision fixing a maximum *percentage* of income to be spent in retail shops—say 80 per cent. of total income, which is said to be the actual proportion spent in shops by the poorer population at present. Apart from the great administrative complications which this refinement would introduce into the scheme, however, it is clearly unacceptable politically; for the lower income groups would certainly resent a discrimination against them in the allocation of coupons which would deprive them even of the opportunity of selling these to the well-to-do.

Politically, one of the great attractions of the flat rate scheme is that it would ensure manifest equality in the distribution of the really scarce goods without calling for drastic changes in the general manner of living of the different sections of the community, who would be able to maintain their normal standards of housing, education, and so on. This appeal would be lost by any variation in the flat rate maximum. In practice, it would seem that nothing more could be done than to make the transfer of coupons illegal and trust that this would prove a sufficient deterrent. And although transfers are certainly undesirable in principle, it may be questioned whether the emergence of a market in coupons would be a fundamental objection to the plan.

If it be accepted that the plan is administratively feasible, what are its special merits as a solution of the financial problem? At first sight, it may not be apparent that the control of private spending would be of any assistance in the financing of the war. Yet, in fact, it is the whole crux of the problem. For as Mrs. Robinson pointed out in a recent issue: "The essential problem of war finance is not how to find the money to pay for the war effort—the money can always be found. . . . It is the problem of how the goods left over for civilian consumption are to be distributed amongst the public." Briefly, it may be said that it does not matter a great

deal how much additional money the Government creates in order to pay for the war so long as this extra money is prevented from coming on to the consumption markets and thus driving up the cost of living. Once a limit has been placed on the aggregate demand for consumption goods by the public, an expansion in bank credit ceases to provide an index of inflation; for one will have brought about by compulsory means a phenomenon which has been in progress spontaneously during the past year—namely, a decline in the average rate of turnover of bank deposits. From the point of view of the post-war position, however, it is undesirable that vast quantities of blocked purchasing power should be created to provide the fuel for inflation at some later stage. And one of the advantages of the plan is that it in no way interferes with the mopping up by taxation or Government loans of the unspent margin of income. Indeed, the whole of the unspent income may be regarded as compulsory savings which the Treasury can tax away or borrow at will.

Actually, the Government would need to raise—either by taxation, borrowing or credit expansion—considerably more than the sums diverted away from the consumption goods market. As has been shown, the true gap at present can probably be placed at some £1,500 millions, which means that the total spending of the public must be reduced by this amount if borrowing from the banks is to be avoided. On the other hand, Mr. Kalecki estimates that his flat rate maximum would reduce retail spending only by £500 millions—from £3,200 millions to £2,700 millions. To be successful, however, the scheme does not need to reduce retail spending by the full amount which the Government has to raise, but only in proportion to the decline in the available supply of consumption goods. Since prices have risen about 25 per cent. since the beginning of the war, the curtailment in spending under the 25s. maximum would seem to be sufficient to stabilise prices at their present level, provided that consumption goods output has not fallen by more than a quarter. If the supply of goods to the consumer should be further reduced, of course, then the individual maximum would have to be reduced or else the tendency for prices to rise would

reassert itself. Unless the Government were to tax away or borrow considerably more than the £500 millions diverted from the consumption market, however, the rationing of retail expenditure would not prevent a tendency towards a continued rise in the price of services and of all forms of consumption outside the scheme. Hence it is clearly important that only inessentials should be left uncontrolled and that expenditure control should cover the whole field of staple consumption. It would be regrettable, therefore, if the rationing scheme should be applied, as suggested in some quarters, only to expenditure on food. Any such limitation would largely vitiate the object of the scheme, which is as far as possible to prevent rising prices from exacting more than their fair share of sacrifice from the lower income groups. If the scheme were limited to food, this would bring only a moderate improvement on the present position, in which subsidies and rationing serve to ensure a reasonable distribution at any rate of the basic foodstuffs. To take the sting out of inflation, however, equity in distribution must be extended to considerably farther afield. It is sincerely to be hoped that the Government will finally summon up the realism and energy to check inflation before this becomes a serious danger to morale. They should be grateful that an alternative to inflation lies to hand which is politically acceptable and administratively workable, which would ensure efficiency as well as equity in distribution by leaving the greatest freedom to individual choice, and which, finally, avoids the need for the unpleasant moratorium provisions by which alone drastic taxation could be effectively implemented.

The Settlement of Inter-Empire Payments

By Paul Bareau

THE vesting order covering six India Government sterling loans has suddenly and rather painfully awoken interest in a problem which has been gathering magnitude ever since the outbreak of the war, namely, the accumulation of sterling area funds in the

London short-term capital market. That such a development was taking place has been evident, not merely from statistical evidence, but from the day to day experience of the money market, where the competition of sterling area funds for the available supply of short-term investments has for many months past been an increasingly dominant factor. The conditions which have led to this accumulation of London balances by Empire countries require no detailed analysis to bring them to light. They are part of the violent swing in the balance of payments of the United Kingdom occasioned by the war. The need to import the foodstuffs and raw materials required by our war effort, the check to our export trade caused by the diversion of industrial and raw material resources to armaments and by shipping difficulties, to say nothing of the virtual disappearance of large sources of income from invisible exports—all these have caused the balance of payments to turn severely adverse to the United Kingdom.

Vis à vis the dollar block, this change has hitherto reflected itself in the gradual liquidation of our gold reserves and of our marketable dollar investments. *Vis à vis* the sterling countries, it is mainly in the growth of London funds that the swing in the balance of payments has made itself apparent. This movement is difficult to measure with any degree of exactitude. The statistics are by no means complete, but their general gist is unmistakeable and overshadows any qualifications to which the individual figures are subject. Here are the principal items in the total of sterling area assets in London, comparing in each case the last pre-war figure with the latest data available in this country :—

	Pre-War	Latest Data	Date
India—	£	£	
Reserve Bank ..	52,185,000	202,500,000	31.1.41
Eire—			
Currency Comm. ..	7,208,000	10,798,000	Dec., 1940
Irish Banks ..	61,750,000	68,847,000	4th quarter 1940
Australia—			
Commonwealth Bank	29,500,000	52,900,000	21.10.40
New Zealand—			
Reserve Bank ..	4,550,000	7,040,000	Nov., 1940
Trading Banks ..	2,560,000	9,880,000	,,
South Africa—			
Reserve Bank ..	7,096,000	762,000	3.1.41
Egypt—			
National Bank ..	15,759,000	28,200,000	30.9.40

The most surprising item in the above table is the reduction shown in the London assets of the South African Reserve Bank. These touched their highest point in June, 1940, when they reached £8,995,000. They were then considerably depleted by the redemption on July 1 last of a £7,900,000 South African loan, an operation effected out of accumulated sterling resources. The declining tendency of these funds during the latter part of the year seems surprising in view of the greatly increased value of South African exports, and especially of gold. One is driven to the conclusion that the book-keeping of the direct transactions in gold between the South African and British Governments is kept separate from other merchandise financing and that the sterling payments made for such gold by-pass the South African Reserve Bank.*

The figures demand other qualifications. The considerable increase in the London funds of the Commonwealth Bank of Australia is in part due to the diversion to this bank of funds previously maintained by the trading banks. Exact statistical measurement of this shift of funds cannot, however, be obtained, It would also seem that some of the Commonwealth's war expenditure incurred overseas and payable in sterling is debited to inter-Governmental accounts and is not immediately deducted from the London funds of the Commonwealth Bank. In the case of the New Zealand balances, the increase of the Reserve Bank's funds has probably been to some extent veiled by the temporary crediting of certain sterling payments in transit to another item of the balance sheet, namely advances to the Government. On the other hand, both the Australian and New Zealand figures of London funds have been swollen by the considerable acceleration in payments for exports of materials now purchased by the British Government. Whereas formerly exports of wheat, wool and dairy produce were financed on a three-months' basis, the bulk of the moneys due is now paid over either on approval of the goods in the country of origin, or when the goods are placed on board ship. This introduces a time factor which has helped to swell the London funds of both these Dominions.

* There may also have been some repatriation of capital by security purchases on the part of the mining finance houses.

Hitherto the funds accumulated in London on account of sterling area countries have, in the main, been invested in the most liquid available form of investments—that is, they have either remained at call or short notice in the money market, or have found their way into Treasury bills. No special efforts have been made to feed this particular demand for Treasury bills by issues of "tap" bills such as are made to Public Departments. The sterling area demand for bills has had to be satisfied either at the weekly tenders for bills or by open market purchases. Competition for bills from this source has become more and more pronounced in recent months and is one of the main reasons why the discount market proper has been kept on such comparatively short rations, though the weekly offerings of bills have been maintained at the high level of £65,000,000.

This treatment of Empire funds accumulating in London has certain advantages. It has eased the problem of deficit financing and in a manner which has proved admirably cheap to the Treasury. Why, it may be asked, not let the process continue? Apparently there are still objections even from our side to an inordinate growth of the short loan fund in London. Such fears are probably a relic of the experience which preceded the departure of sterling from the gold standard in 1931 and have clearly lost most of their substance since then. In any case, these Dominion and colonial funds could by no stretch of imagination be compared with the highly volatile short loan fund which gave us such nightmares in the late 1920's and early 1930's. It is difficult to see, moreover, how they could involve any serious danger to the exchange position unless one presupposed a complete break-up of the sterling block. More solid objections to the accumulation of these short term sterling assets have come from the side of the creditor countries concerned, especially from those which are at the same time heavily indebted to us on long term account. Their objections have been based on the considerable margin between the rates they are earning on their London assets and those which they are paying on their liabilities to this country.

In the interests of tidiness there are obvious advantages in clearing the decks of mutual indebtedness

between this country and the Dominions which can be readily offset. Wherever opportunities have occurred for such cancellation through the maturity of the obligations involved, they have been seized. The case of the South African loan which matured last year has already been mentioned. Canada redeemed a sterling loan of £19,300,000 in October last. India has already begun the repatriation of sterling capital and debt raised here by her railways, and more than a year ago made plans for issuing the rupee counterpart of a number of her sterling loans. But the opportunities for effecting such balancing operations are rigidly circumscribed, not only by maturities but also by the natural unwillingness of the Empire countries concerned to repay loans on which they are in a position to exercise the option of redemption, but which carry comparatively low rates of interest and are therefore standing appreciably below their redemption price. Hence the recourse to compulsion by requisitioning dated stocks which the Treasury has initiated with the latest vesting order for Indian Government loans. Since the balance of payments within the sterling area is likely to remain appreciably adverse to the United Kingdom for some time to come, we must expect the India precedent to be followed by other operations of a similar character.

The scope for such cushioning of the growth of Empire assets in London is fortunately enormous. The flow of British capital to the Empire has been a long drawn out process and has created by far the greater part of our estimated overseas investments of £3.692 million.* The highly marketable Dominion, Indian and colonial stocks

* The main items in our overseas investments, as estimated by Lord Kindersley may be summarized as follows:

	£ millions
Dominion and Colonial Governments	993
„ „ Municipalities	88
Foreign Governments and Municipalities	317
Investments in British Companies operating abroad	1,209
Investments in foreign and Dominion companies ..	685
Unquoted investments	400
Total	3,692

The net income derived from these investments in 1938 is estimated to have amounted to £185,000,000.

quoted on the London Stock Exchange are outstanding to the following nominal amounts:

	£
Indian Government	271,780,000
Dominion and Colonial Governments ..	835,135,000
Corporation stocks—Dominion, Indian and Colonial	100,777,000
Total	£1,207,692,000

Residents in the United Kingdom, however, do not hold quite the whole of these outstanding loans. Lord Kindersley in his latest estimates of Britain's overseas investments calculated that British holdings in Empire Government and municipal loans at the end of 1938 were as follows:

	£ millions
Australia	430
India and Ceylon	245
New Zealand	122
Canada and Newfoundland	116
South Africa and Rhodesia	109
Others	59
Total	1,081

On the figures already given, it would appear that the accumulation of short-term Empire balances in London has been proceeding at the rate of about £150,000,000 per annum. Taking the grand total of our gilt edged investments in Empire countries, this would give us over six years in which to run through them at the pace maintained since the beginning of the war. It is thus permissible to hope that on Empire account, at least, we shall emerge from the war still a creditor nation, though with our claims considerably abated and our ability to live as a rentier nation correspondingly reduced.

Need that reduction cause us serious concern? It is true that it is the most marketable and therefore most gilt-edged section of our Empire investments which will be sacrificed during the war. But the goodly residue need not be the least remunerative, because it is the least marketable, part of the total. Probably the best yielding of these investments are the direct stake in commercial and banking enterprises, in plantations, mines, etc. They will be the last to go and in all proba-

bility will be preserved intact. But even if the whole of our income from overseas investments were to disappear, would the resultant shock to our national standard of living be crippling ? In 1938 our net national income from such investments amounted to £185,000,000. This compares with a total national income in that year of £4,850,000,000. The proportion—less than 4 per cent.—appears insignificant. It is, in fact, greater than appears at first sight, because to this net investment income there must be applied a multiplier. Other incomes are both fed and created by it ; and were we to lose the whole of our income from overseas investments, it would probably be safe to place the aggregate reduction in our national income (on the basis of 1938 money values) at about £500,000,000, or around 10 per cent. of the total. That would be a perceptible loss to the nation as a whole and a very painful one to the sections of the population more particularly affected. On the other hand, it must be realized that by far the greater part of the Empire investments which we shall sacrifice during the war will be of the fixed interest bearing kind. The real loss to the community will thus be mitigated by the fall in the value of money which has already taken place and which will undoubtedly make still further progress. The importance of our income from overseas investments should, however, be measured in terms of another criterion, namely, our balance of international payments and our ability to import materials and manufactures in excess of those we export. In 1938, our income from overseas investments was equal to about one-fifth of our total imports and close on one-half of our imports of foodstuffs. The impact of the adjustment in our balance of payments required by a considerable reduction in this invisible export would undoubtedly be felt by the nation as a whole. In any case, the depletion of our laboriously accumulated fund of overseas investments can only be regarded with concern. Such a reserve has its uses, as our present emergency proves. It would take decades to rebuild, if it could be rebuilt at all. And its dissipation can only leave us economically the weaker, even if no future emergency calling for similar encroachments on accumulated capital need ever be envisaged.

American Aid and the Dollar Problem

THE passage of the "Lease-and-Lend" Bill which has been making its way through Congress during the past month will usher in a fresh phase in the problem of paying for the war abroad. At the outbreak of war, one of this country's overwhelming advantages as compared with the Nazis was the possession of vast reserves of gold and foreign exchange, which placed us in a position to draw freely upon the immense resources of the New World so long as we retain the freedom of the seas and are able to transport goods safely to our shores. Notwithstanding the extent of our foreign exchange assets, however, it was a serious disadvantage that the American Neutrality Act compelled us to pay cash down for all purchases in the United States and made it legally impossible for our own resources to be supplemented, as in the last war, by American loans. As the war progressed and necessitated heavy and continuing gold losses, this inability to rely, in the last resort, upon American credit became a matter of ever-increasing practical importance. And in recent months the position has developed into a veritable race between the exhaustion of our available dollar resources and some modification of the position in America which would remove or circumvent the legal obstacle in the way of American contribution to the British war effort on anything but a cash-and-carry basis. In a sense, it might be said that our staying power did not quite last the course, for Mr. Morgenthau has stated that British purchases had to be suspended in December for lack of available dollars. Fortunately, the President's brilliantly simple solution to the problem in the form of the Lease-and-Lend plan has not been long delayed. And with this measure impending and ultimate payment thereby assured, it may reasonably be hoped that no great wastage of American capacity has resulted from our inability for technical financial reasons to place definitive orders. In the near future, in any case, the "dollar sign" should have been finally deprived of any power to prevent production for the democratic war effort from reaching the maximum which the physical capacity of the United States allows.

While the Aid for Britain Bill will solve the most important side of our dollar problem—that of securing war supplies—it will not, however, remove the dollar problem entirely. At one time there was a suggestion that Britain would be required to put up some form of security for the loaned supplies—a provision that would not exactly abolish the dollar sign in relation to America's contribution, which the President has likened to the loan of a hosepipe to a neighbour whose house is on fire. Even apart from this question of security, it must be remembered that the Lease-and-Lend provisions apply only to actual munitions of war. For raw materials and for all other essentials which do not fall within the category of munitions we shall, presumably, have to continue paying exactly as before. What is quite clear, therefore, is that the need to export in order to secure dollars is almost as pressing as ever. There can be little possibility that American aid on the new basis will permit us to any appreciable extent to relax the export drive in the near future and so mitigate the sacrifices demanded of our people by the war.

On the other hand, we can clearly view the future with much greater equanimity if the dollars we can muster through our current production and by realization of our remaining reserves will no longer be swallowed up in payment for actual war supplies. Provided our remaining exchange reserves were sufficiently large in relation to the reduced demands upon them, it is clear that a point might sooner or later be reached, if the end of the war seemed reasonably near and shipping space was available, when it would become permissible to expend some exchange for the import of civilian supplies. To draw on capital in order to mitigate the worst hardships in a period of severe deprivation can in some circumstances be rational economics for a community no less than for an individual, particularly if this helped incidentally to strengthen morale for the final effort needed to pursue the struggle to conclusive victory. Is it possible to form any estimate of our remaining dollar supplies and requirements, to see the dollar problem in anything like its new perspective?

While any estimate of the position must necessarily be tentative in the extreme, the general impression made

by the scant available data is not altogether discouraging. In the first place, it would seem that our actual shortage of dollars is due to the difficulty of converting potential assets into actual available dollars rather than to any exhaustion of our reserves themselves. The Federal Reserve Bulletin has recently made an upward revision of its estimate of Empire gold and dollar resources on the outbreak of war from $6,400 millions to $7,115 millions, of which $4,860 millions were attributed to the United Kingdom, $1,570 millions to Canada and $685 millions to the remainder of the Empire. Actual deliveries of goods by the United States up to the end of 1940, on the other hand, amounted to no more than $2,600 millions. What is more, in the intervening period the Empire has produced $1,100 millions of gold and has exported $1,400 millions of goods to the United States. Taking the Empire as a single unit, in other words, it would appear on the face of it that up to the present our current production has been almost sufficient, without encroaching on capital reserves at all, to pay for war supplies actually received from the United States.

Admittedly, as the Federal Reserve Board points out, the situation cannot be adequately presented in terms of such figures. One reason is the substantial withdrawals of capital which have been permitted to take place from this country. Another reason is the necessity for acting in advance of deliveries in the purchase of war supplies. As is well known, it has been necessary for this country to make substantial payments to finance the expansion of American war capacity, while even greater sums have been paid out for goods which will not actually be delivered for many months ahead. Furthermore, our remaining resources are subject to commitments that have been incurred on a great mass of orders placed but not yet paid for. Hence it is not surprising to learn, as Mr. Morgenthau stated in his testimony on the Lease-and-Lend Bill, that in the first 16 months of war British gold and dollar resources were actually depleted by $2,316 millions. To the extent that these drafts on our resources have been occasioned by the withdrawal of capital, they are, of course, a dead loss. But to the extent that they represent prepayments for war supplies still to be

delivered, we shall still be receiving the benefit of them for many months ahead.

Even if this were not so, moreover, a loss of the order named would represent less than one-third of the total resources with which we are estimated to have embarked on the war. To be sure, it is perfectly true, again to quote the Federal Reserve Bulletin, that there is no one figure that actually measures British dollar resources. A portion of the $7,115 millions would represent dollar balances and securities held in British names by foreigners who were using the financial facilities of London at the outbreak of war. Dollar resources in the full ownership of British nationals, moreover, are of greatly varying degrees of availability. Even gold itself, as is pointed out, differs as regards its availability for purchases in the United States according to both its location and ownership: "Gold held in the United Kingdom, India and South Africa involves the delays and risks of sea transport, and the central reserves of the Dominions are not as freely at the disposal of the British authorities as gold belonging directly to the British Treasury. . . . Security holdings, which at best are difficult to determine accurately, show also the widest possible variation from the standpoint of marketability. To be used they must be converted into cash. Even the best securities may shrink in value if pressed in too great volume on the market. Others may have no ready market at all." When all such allowances are made, however, it remains true that if our coffers are void of immediately available dollars, this position is due to difficulties of realisation, which are presumably chiefly a matter of time, rather than to an absolute lack of potential exchange resources.

If it be assumed that the whole of the resources comprised in the Federal Reserve total can sooner or later be converted into cash at something like their valuation figure, then it would seem that we still possess potentially realisable reserves of the order of some $4,500 millions. How long would such a total, if it has any significance, meet the prospective demands upon it? Given satisfactory progress in the expansion of America's war potential, it is estimated that exports to the Empire this year may amount to as much as $3,500 millions.

With little change in the volume of British exports, this would mean an adverse balance of considerably more than $2,000 millions. By far the greater part of the American exports, however, would presumably consist of war materials covered by the Lease-and-Lend Bill, once this has been enacted and come into operation.

Though it is impossible even to estimate what proportion of the $2,000 millions we may be required to raise in cash this year, it is quite clear that under the Lease-and-Lend Plan our annual requirements of dollars would be only a fraction of this sum. As will be seen from the following table, total United States exports to the main sterling countries in 1938 amounted only to $1,224 millions, while the combined adverse balance of these countries in trade with the United States amounted only to $626 millions. In present circumstances, no doubt, it is not to be supposed that we can maintain the

UNITED STATES TRADE WITH CHIEF EMPIRE COUNTRIES IN 1938.

	U.S. Exports $ m.	U.S. Imports $ m.	Empire import (−) or export (+) Surplus $ m.
United Kingdom	521·1	118·2	− 402·9
Canada	467·7	260·3	— 207·4
Australia	68·8	8·7	— 60·1
South Africa	70·1	16·0	− 54·1
Ireland	26·9	·9	− 26·0
New Zealand	23·4	6·6	− 16·8
India*	37·0	74·8	+ 37·8
Malaya	8·8	112·3	+ 103·5

* Including Burma and Ceylon.

same volume of exports as in a pre-war year, though it must be remembered that the production of rubber and tin—our chief visible exports to the United States—have been increased very considerably, while shipping difficulties cannot touch Canada's trade with the United States. If Empire exports to the United States nevertheless show some decline, moreover, there is no doubt that on the other hand our purchases from America of goods other than actual war supplies can be and have been very considerably reduced. As will be seen from the next table, imports in the food, drink and tobacco group accounted in 1937 for £31.8 millions and in 1938

MAIN UNITED KINGDOM IMPORTS FROM UNITED STATES

	1938 £000	1937 £000
Food, drink and tobacco—		
Tobacco	17,827	14,209
Grain and flour	15,624	3,388
"Other food"	10,335	9,421
Fruit	4,720	2,306
Meat	3,366	2,544
Raw materials—		
Cotton	10,001	20,528
Wood and timber	3,680	5,364
Iron ore and scrap	2,966	3,497
Hides and skins	1,783	2,233
Oilseeds, etc.	1,023	1,123
Manufactures—		
Petroleum, etc.	11,666	9,729
Machinery	9,709	11,756
Miscellaneous manufactures	4,380	3,459
Chemicals	2,637	2,681
Non-ferrous metals*	2,635	3,776
Vehicles	2,546	3,776
Iron and steel*	2,141	3,052
Cutlery, tools, etc.	1,654	1,986
Total	117,887	114,105

* And manufactures thereof.

for as much as £51.8 millions of this country's total imports from the United States, which in turn represent more than 40 per cent. of the total imports of the Empire as a whole.

Taking into account the possibility of cutting down on inessentials and the large dollar sums now being earned by Malay's export industries, it may be suggested as a piece of pure guesswork that the depletion of our exchange reserves for supplies falling outside the Lease-and-Lend Plan might not be of the order of more than about $500 millions. The unknown factor, of course, is the extent to which we are importing industrial raw materials from America for our own war industry. In view of shipping difficulties, however, it is difficult to believe that the uncovered import surplus could thereby be raised above $1,000 millions. Even if we have to put up as much as $1,500 millions this year, therefore, our reserves—provided they can ultimately be turned into cash—should be fully sufficient to see us even through a long war. Indeed, there should not be any very great

difficulty in realizing even the less readily marketable assets at a rate of only $500 millions per annum. In the immediate future, before existing contracts have been liquidated and the Lease-and-Lend Plan comes into effect, we shall no doubt be extremely hard put to it to convert investments into cash on the scale required. On a longer view, on the contrary, our position should become reasonably comfortable. In the long run, the limits to our financial resources should become of quite secondary importance compared with the limits to our real resources, such as shipping. For the moment, however, the dollar problem is as acute as ever.

The Consequences of Exchange Laxity

By Paul Einzig

IN a statement before the Foreign Relations Committee of the House of Representatives recently, Mr. Morgenthau, Secretary of the United States Treasury, made a somewhat startling revelation. He declared that for lack of dollar resources it became necessary for the British Purchasing Commission virtually to suspend the placing of new arms orders since December last. He added that the capacity of the United States arms industry cannot now be fully utilised for British orders because of this lack of dollar resources. On a previous occasion, Mr. Morgenthau had stated that the amount of liquid dollar resources still in the hands of British banks or other British private holders was considered by the British Treasury to be the minimum required for the conduct of current business. It was also admitted that the bulk of the easily realisable dollar securities has already been realised, and the Treasury despatched Sir Edward Peacock to the United States in order to liquidate the less easily realizable assets, such as British participations in American companies.

Evidently the formidable gold and dollar reserve with which this country entered the war has dwindled down to a point which could not further be reduced without considerable inconvenience to current business,

the maintenance of which is essential. Had the whole of the decline been due to expenditure on arms and essential raw materials, everybody would agree that the gold and foreign exchange was well spent. Unfortunately, a very large proportion of the losses was not connected with essential purchases. They were the result of a grossly improvident foreign exchange policy. In the early months of the war, many hundreds of millions of dollars were lost owing to the inadequate exchange restrictions which left all too many loopholes for capital to escape abroad. It is partly because of the Treasury's omission to adopt stringent exchange control immediately on the outbreak of the war and to enforce it with full severity that this country has come to the end of its readily available dollar resources before the United States was ready to extend its financial assistance. Fortunately, the passing of the Lease and Lend Bill is a mere matter of time. Even so, the result of the slackness of exchange restrictions during the first part of the war is apparently an interruption of the placing of arms orders in the United States during several vital months.

During the early months of the war, the authorities were repeatedly attacked in the pages of THE BANKER for their reluctance in reinforcing their exchange restrictions, which at that time were leaking like a sieve. Their unwillingness to block foreign balances was particularly subject to criticism in the press and in the House of Commons. In answer to these criticisms, Lord Simon, the then Chancellor of the Exchequer, declared in March, 1940, that the extent of the leaks was negligible and that to close them would be contrary to the interests of this country, as it would be detrimental to London's position as an international banking centre after the war. As was pointed out again and again, however, the prospects of London resuming her *rôle* as the world's banker after the war depend entirely on the outcome of the war. The best way of securing the resumption of those functions is to make the utmost effort to win the war as soon as possible and as thoroughly as possible. To that end, every cent of foreign exchange controlled by the London banking centre should have been earmarked for the use of the Treasury. Instead, thanks to Lord Simon's shortsighted policy, a very large proportion

of these reserves was allowed to be withdrawn by their foreign owners.

This was done mainly through sales on the free market in sterling. What is more, as a result of the slackness of exchange restrictions, counterpart was generously provided for those anxious to sell out their sterling. Until March, 1940, foreign importers of British goods were at liberty to acquire their sterling in the free market. And since the free rate for sterling was substantially below the official rate, it stands to reason that practically all foreign importers availed themselves of this privilege. This meant that the foreign exchange proceeds of British exports, instead of finding their way to the Treasury, were sold to holders of sterling wanting to liquidate their holdings. From the foreign exchange point of view, a very considerable part of the exports of Great Britain and the British Empire during the first seven months of the war was a dead loss. It would have been better to retain the goods than to export them for the sole purpose of providing foreign exchange for holders of sterling wishing to transfer their capital abroad.

It was not until March, 1940, that the first steps were taken to fill the gaps. These steps were highly inadequate and it was not until four months later that they were made reasonably effective. During the first ten or eleven months of the war the Treasury had to pay out gold for all British imports but received very little for British exports. It is no wonder that the gold reserve was dwindling rapidly, even though during the early phases of the war the amounts of orders placed for war material were negligible.

To anyone with the least statesmanlike foresight it should surely have been obvious from the very outset that this country was in for a prolonged war, which would necessitate sooner or later the adoption of stringent exchange control. The reinforcement of restriction measures was obviously a mere question of time. This being so, it is simply impossible to understand how the authorities could ever have believed that they could safeguard the interests of the London banking community by refusing to adopt efficient restrictions at the beginning of the war. In so far as the adoption of restrictions

tends to affect London's post-war position, it makes no difference whether advanced measures are adopted at an early or at a later stage, if they are adopted at all during the course of the war. The choice was simply between bolting the stable door before or after most of the horses had gone. The international banking community of London did not benefit in the least by this policy of expectant hesitancy. On the contrary, in so far as the delay in placing orders for war materials tends to prolong the war, Lord Simon's foreign exchange policy will have contributed towards making it more difficult for the City to resume its pre-war functions.

Not only were the early exchange regulations inadequate, but their enforcement was lenient in the extreme. The authorities were most reluctant to prosecute offenders and the penalties for those found guilty were negligible. This state of affairs continued to prevail even after the reinforcement of the exchange restrictions. To my recollection, there is only one instance in which the prosecution of exchange evaders resulted in the imposition of a really substantial fine —and in this case the amount was reduced on appeal to about 1 per cent. of its original figure, following upon a spirited speech for the defence in the House of Commons by no less a person than the Chancellor of the Exchequer, Sir Kingsley Wood, while the case was still under appeal.

Such criticisms cannot be dismissed as mere recrimination. Exchange restrictions, unfortunately, are still far from adequate and their enforcement is as lax as ever. There are still a number of loopholes left which call for attention. No payments agreements have been concluded with a number of countries to secure the surrender of the proceeds of British exports. As for invisible exports, they are still outside the exchange regulations. Many foreign holders of sterling still have an opportunity to liquidate their holdings to the detriment of the Treasury's foreign exchange reserve.

At a time when the Government is considering the liquidation of British participations in American business firms, it is surely justifiable to demand the reinforcement of exchange restrictions to the limit of possibility. Our direct investments in America are highly valuable from the point of view of British-American business

relations. Their abandonment would destroy very valuable goodwill and would mean the loss of current earnings, the size of which is quite out of proportion to the capital value to be received by the Treasury. In spite of this, nobody would think of opposing the liquidation of these assets when dollars are so badly needed. The least that can be expected, however, is that before the Treasury resorts to the liquidation of these assets it should make a final drive to round up evaders and to reinforce the restrictions.

The India Loans Pay-off

By H. C. G. Slater

THE announcement on February 8, that in pursuance of Orders made under the Defence (Finance) Regulations 1939, certain holdings of Indian Government Sterling Stocks were to be vested in the Treasury forthwith, came as a surprise to the London Market. In some quarters, indeed, it was felt that the compulsory acquisition of these terminable Stocks, in most cases well in advance of their maturity dates, was an operation open to objection on ethical grounds as a breach of contract. The early acquisition of American and Canadian assets was taken as a matter of course owing to our patent need for dollars to pay for enormous purchases of war materials. The vesting of the Indian Government Stocks, on the other hand, seemed to many to be more a matter of mere expediency by which the Indian Government obtained certain advantages to the detriment of its Stockholders. The main reason for the vesting order, clearly, was the desire of the Indian Government to utilize in the repatriation of Sterling Debt the large sterling balances which it has been accumulating since the commencement of the war. As other members of the sterling group, such as Australia and New Zealand, may sooner or later find themselves similarly placed, it is of interest to examine more fully the special factors involved in the present case.

It will be recalled that for some time past the Indian Government have, through the agency of the Reserve Bank, been purchasing their Sterling Stocks on the

London Market. Moreover, in February, 1940, it was announced that, in order to facilitate this repatriation of debt, Rupee counterparts of all Sterling Loans had been created so that those holders who wished to transfer their holdings into Rupee Stocks could do so on identical terms as to the rate of interest and the date of maturity. A feature of India's Rupee Debt is the facility whereby Rupee Stocks may be held in London in the form of promissory notes or inscribed Stocks, interest being payable by the Reserve Bank of India's London Office by means of Bills of Exchange drawn in Rupees on India. The nine Sterling Loans were, however, quite distinct from this Rupee Debt, having been raised in this country under various East Indian Loans Acts and forming a direct obligation of the Secretary of State. The latter's guarantee, it may be noted, was expressly retained by the East India Loans Act 1937, when the Government of India Act 1935 gave India a new constitutional Status. The Sterling Stocks comprised in the recent vesting order, together with the prices at which they will be compulsorily acquired, are set out below.

INDIAN STERLING STOCKS ACQUIRED BY THE TREASURY.

Title of Security	Outstanding at 30/9/40	Price to be paid per £100
India 5% Stock 1942/47	£5,437,000	£104 16 6
India 4½% Stock 1950/55	£35,798,000	110 1 10
India 4½% Loan 1950/55		
India 4½% Loan 1958/68	15,836,000	112 17 0
India 4% Stock 1948/53	9,674,000	106 11 7
India 3½% Stock 1954/59	8,889,000	102 16 4
India 3% Stock 1949/52	8,336,000	99 16 2
	£83,970,000	

It will be noted that these Stocks are all terminable issues, the first maturity being the 5 per cent. Stock 1942/47 and that the prices to be paid on or about March 24, 1941, correspond with the prices ruling for each security at the time of the vesting order. On September 30, 1940, the total amount of outstanding Loans raised under the East India Loan Acts was about £245 million. Of this total, the seven terminable issues referred to above amounted to about £84 million, the balance (non-terminable issues) consisting of the outstanding amounts of 3½ per cent. Loan 1931 or after

(£79 million), the 2½ per cent. Stock (£11 million) and the 3 per cent. Stock (£71 million). By the vesting order, the cream of the Indian Sterling Loans Market is thus removed—a fact of which the dispossessed holders will be only too painfully aware in their search for alternative investments. Trustees especially will find it extremely difficult to obtain similar investments in the present state of the Gilt-edge Market.

Apart from the point of principle, nevertheless, it is safe to say that, in view of the very large part India is taking—notwithstanding political difficulties—in helping to win the war, few will grudge her the opportunity of so large and speedy a cancellation of her Sterling indebtedness. The acquisition of surplus Sterling balances in this country by India arises from several factors. Chiefly, of course, there is the increased favourable balance of trade in merchandise which the war-time demand for agricultural products ensures for a country like India. India's position as an exporter of gold on a large scale has also to be taken into account—the direct shipment of gold from India to America has played a most important part in the finance of the War. In essence it makes no difference whether this gold is shipped on behalf of the Bank of England or by private Indian exporters, since the proceeds are in either case available as part of the Sterling area balances. Again, the relationship between this country and India's finances is so close that there are numerous financial adjustments which must be taken into account with regard to the cost of the British Army in India, the requisitioning of various supplies for the Forces in the Middle East and the purchase of tea and other food stuffs. The monetary values involved in the last two items will normally be reflected in the trade figures, while the cost of military and other Government commitments would appear, where these can be foreseen, in the Budget estimates. Sales of silver through the London Market are another item to be regarded and these up to February, 1940, appear as part of the Trade Returns. At the moment, these special factors seem to outweigh by a considerable amount the normal remittances of about £30 million p.a. which India has to make to this country for the service of Loans, Railway Annuities, Pensions and other matters.

Lastly, it must not be overlooked that Burma, too, although no longer an integral part of Indian administration, yet contributes her quota of Surplus Sterling through a favourable Trade Balance. The difficulty in obtaining accurate statistics in war-time needs no stressing, and as no returns of gold and silver Exports are available for 1940–41 it is only possible to estimate the creditor balance in general terms. From September, 1939, to December, 1940, the favourable balance of trade in merchandise and treasure of India and Burma combined amounted to about Rs. 120 crores (£90 millions). On the other hand, the Budget estimates for 1939–40 and 1940–41, after allowing for silver sales and credits in London, show that the remittances required amount to about £22 million for the two years—say £17 million for the period under consideration. The amounts payable by the British Government to India towards the cost of the Army, in pursuance of the Chatfield Committee recommendations, would in normal times appear to amount to hardly less than £6 million (per annum), and the rapid expansion and mechanisation of the Indian Army, together with the vastly increased expenditure in connection with the Army of the Middle East, must have added considerably to the British Government's liabilities. Considering all these factors, and assuming payments for miscellaneous items, tea, foodstuffs, etc., amount to about £15 million, it would seem that the net Sterling balances available to India in this country should have amounted to between £130 and £150 million from the beginning of the war to date. This estimate is borne out to some extent by a comparison of the Sterling Assets shown by the Reserve Banks' Statements between September, 1939, and February, 1940, which reveals the following increases :

RESERVE BANK STERLING ASSETS

	September, 1939	February, 1940
Issue Department. Stg. Securities held	Rs. 60 Crs.	Rs. 140 Crs.
Banking Dept. Balances held abroad	Rs. 13 Crs.	Rs. 63 Crs.
	Rs. 73 Crs.	Rs. 203 Crs.

Increase Rs. 130 Crs. or £98 mill.

In the first six months of 1940 the Reserve Bank purchased £24 million Sterling Debt for the Government

of India, and these purchases are thus already accounted for in the Reserve Bank's statements, as also are purchases of Sterling Debt since June, 1940. At the prices at which the Sterling Stock is being purchased the amount involved is about £90 million. The Indian Sterling Loans, however, are not all held in this country, a considerable amount being held in India and abroad. It may be, therefore, that some portion of the liability in connection with the call-up of Sterling Stocks will be satisfied in Rupees and the amount of Sterling required fall short of the figure stated. Nevertheless, it would appear for the time being that the major portion of India's surplus Sterling is being absorbed by this transaction. The need for some measure by which this creditor balance could be cancelled is clearly apparent. To extinguish a large portion of Indian Sterling Debt offers a natural solution of the problem, and though at present only the terminable stocks are involved, the possibilities of further acquisitions will not be overlooked by the holders of other Indian Government obligations. Considerable satisfaction will undoubtedly be felt in India over this cancellation of Sterling Debt, and it is probable that the Indian Market was better prepared for the event than London.

In reviewing this call-up of Indian Sterling Loans, it is essential to have regard to the broader aspects of the matter. The Empire Central Banks are necessarily working in close co-operation with the Bank of England in the finance of the war effort. India is mobilising her Dollar resources in the same way as this country and these resources are available for the common good. Gold exported from India to the U.S.A. helps to liquidate Great Britain's indebtedness for war supplies from America, and increased trade between the United States and India similarly supports the Sterling Area. In this connection it is perhaps pertinent to recall that, in spite of the exports of gold from India since 1931, the gold hoards in that country are still formidable. Were it necessary for the safety of the Empire, can it be doubted that this country could rely upon a vastly accelerated export of this commodity from the India which has contributed already so magnificently to " Spitfire " and other patriotic funds in Great Britain ? Though one

can readily understand the indignation of the British stockholders at what might be represented as a breach of contract with the connivance of the Treasury, it is evident also that the Indian taxpayer might have a legitimate grievance if asked to accumulate without limit Sterling earning only 1 per cent., while continuing to pay rates up to 5 per cent. on past indebtedness which India is well able to redeem.

Is the Cheque Obsolete?

By J. Mead

FOR the past sixty years, the law relating to cheques has been governed continuously by the Bills of Exchange Act without any substantial amendment since the Act was passed in 1882. The Act is generally admitted to be a model of legal codification and it is difficult now to realize that heated arguments centred round its historical predecessor, the Crossed Cheques Act, when this was introduced in 1876. Controversy centred on the question whether negotiability was really necessary or even desirable as a quality of cheques. Commercial interests demanded a method of making remittances without risk, but legislative opinion was reluctant to deprive cheques of their basic character as bills of exchange. Bankers, for their part, though ready as always to meet the reasonable needs of their customers, were naturally concerned to secure adequate protection for themselves in dealing with cheques and to avoid excessive responsibility.

There can be no doubt that the need for a form of mandate conveying a right to payment only to the original creditor still persists and is perhaps stronger to-day than ever. Pressure in this direction, though clearly inconsistent with unqualified negotiability, has in the course of time had some results. During the past century the crossing, the special crossing, the crossing "not negotiable" and the addition of "account payee only" to a crossing have been successively adopted. Intended primarily to prevent the realization of the

cheque by unauthorized persons, such devices tend at the same time to restrict the circulation of the instruments. Each in its turn has brought in a train of legal complications. In addition, as is only too well known, the Courts have in late years gradually extended the range of circumstances in which a banker may be held to be negligent in handling cheques for collection (the Savory case comes at once to mind). Each new burden of this sort necessarily tends in practice to discourage the bankers from collecting cheques, except for the reputed payee alone, without meticulous enquiry. The public soon learns that to avoid enquiry it is often advisable not to negotiate a cheque to a third party, but to have it collected, drawing a separate cheque to pass the money on.* Negotiation of cheques, as a habit, is in consequence fast disappearing.

Even now, however, a customer cannot, if he wishes, draw a cheque on his banker to secure that the latter makes payment *only* to another banker for the benefit of the creditor whose account is to be settled.† To be sure, if a cheque is crossed " account payee only," a banker collecting it for any party other than the payee does so at his own peril, but the fact that he can do so at all only illustrates how strongly the tradition of negotiability clings to the cheque. The question is whether the intentions of the customer could not more appropriately be carried out, while making possible considerable economies in the handling of payments, by the introduction of a specific mandate which is not even transferable, far less negotiable. There can be no doubt that the vast majority of cheques have ceased to be drawn with any idea of creating a negotiable instrument,‡ or even a transferable instrument. Neither does the fact that a transferable instrument is unavoidably created

* In business circles an additional motive is that this practice is in line with strict bookkeeping methods. In any case it is almost essential for all incorporated bodies.

† It is theoretically possible, but only by ignoring the standardized form of printed cheque, as is shown below.

‡ Fully negotiable instruments are transferable by endorsement and/or delivery, so that the holder becomes an absolute owner, able to sue in his own name and unaffected by any defect in the transferor's title.

under existing practice confer on the drawer any great benefits of which he remains blissfully unconscious. On the contrary. Negotiability, and even transferability, may in some circumstances leave him unable to challenge his banker's debit to his account, even though the debt which the cheque was drawn to extinguish remains unsettled. For example, loss in the post, followed by fraudulent appropriation of the cheque, is a common source of trouble. So long as the cheque is crossed, a drawer is protected under Section 80 of the Bills of Exchange Act, but only if the cheque has at some time come into the hands of the payee.

It must also be remembered that the inherent negotiability of the cheque renders the process of handling it somewhat more complicated and costly than it need be. It is this which necessitates endorsement by the payee, and the consequent need for the paying banker—who has no personal knowledge of the payee—to examine the cheque to ensure that the endorsement is made in meticulously correct form. A great many cheques have to be returned simply because the endorsement is technically irregular. Yet all this additional and needless work is in practice of no benefit to anybody. Under modern conditions the great majority of cheques are immediately paid in for collection by the payees. The main exceptions in practice are cheques issued in the first place to payees abroad and those issued to payees with no banking accounts. Taken together, the two classes can constitute only a small minority of drawings. Persons without banking accounts who are in the habit of receiving payments by crossed cheque are an ever diminishing body, while in wartime the exchange regulations severely restrict the number of cheques remitted overseas. Why, then, should it not be practicable to devise a new form of mandate addressed to a banker for the sole purpose of enabling the payee to collect what is due to him ?

The question is, of course, as old as the cheque itself, and was discussed as recently as 1938 by Mr. R. A. Wilson in his inaugural address as President of the Institute of Bankers. Mr. Wilson pointed out that bankers nowadays make various classes of payments on the request of customers, the essence of which is to transmit *between*

bank and bank the money owed by one person for the credit of another. Among such payments the Traders Credits Scheme is the newest in name, though it is only a refinement for trading purposes of the well-established system for inter-bank distribution of credit vouchers for dividend payments, club subscriptions and other regular disbursements of all kinds, including those of the Milk Marketing Board. The drawback of this system is that the beneficiary has no knowledge that the payment has been made until he troubles to examine his account or receives special advice of credit from his banker. Such special notification, now demanded by some customers, can be both onerous and expensive. On the other hand, the system of passing credits from bank to bank, though it has its own minor dangers, entirely eliminates the much greater risks inherent in the instruments now passed from customer to customer. That these risks are not negligible is sufficiently illustrated by the constant litigation to which they give rise.

What is needed, within the framework of the Bills of Exchange Act, or outside it, is an instrument that a debtor can send to his creditor for collection through a banker unburdened by the defects of negotiability, which in these days considerably more than offsets its advantages.

The idea is foreign to English banking, but is roughly parallel to practice in some continental countries. For instance, in Spain cheques which do not contain the " order " clause can be endorsed only by the payee (nominative cheques). Such cheques are not paid if the identity of the payee is unknown to the paying bank, without a guarantee, which must be given by the person or firm demanding payment. In Turkey, cheques containing instructions " not to order " cannot be transferred by endorsement. (C. A. Sibley, " European Bills of Exchange," *q.v.*)

Such an instrument could perform the functions required of it, without any ordinary feature of transferability, so long as it was not made positively unlawful for the payee to allow a third party to take it, for his own benefit but entirely at his own risk.

A payee without a banking account must be accommodated by a provision of this nature, as well as a foreign

holder of a non-transferable instrument which has been sent abroad, though the case of foreign payees might be adequately covered by allowing the instrument to be endorsed to a banker. For foreign payments the cheque might be retained, or a separate form adopted. In view of the exchange regulations, a distinctive document for overseas transfers would not be inappropriate.

History and practice alike suggest that the public would welcome the innovation of a new attitude to cheques or cheque-substitutes on the part of bankers and lawyers. Instead of making the cheque freely negotiable at the outset and then limiting that quality, it would be equally practicable to adopt the opposite method of conferring transferability on a specific mandate where this would serve a useful purpose. It would certainly conform better to the general need to start off with a fundamental embargo on transfer by the payee, subject to permissive cession when required under given disabilities. Whether a new type of mandate could be permitted to arise alongside the old, or should take its place, is a matter of expediency.

The Bills of Exchange Act does actually visualize a non-transferable instrument for section 8 (1) reads as follows: "When a bill contains words prohibiting transfer, or indicating an intention that it should not be transferable, it is valid as between the parties thereto, but is not negotiable." Not negotiable is to be taken here in its literal sense, not in the special sense conferred on the words in relation to crossed cheques in s. 81. If it is desired to make a bill or cheque not transferable it should and can be drawn in the form "pay John Brown only." It may seem surprising that customers have never adopted this simple means of prohibiting transfer and ensuring a high degree of safety for themselves when issuing cheques. The answer is that the banks themselves have discouraged this practice by printing their cheques in the form: "Pay ..... or order." This gives the customer a clear guide to the form his mandate is expected to take, and it is seldom altered. Furthermore, the drawer banker's reaction to a cheque in favour of "John Brown only" is to demand incontrovertible evidence of identification if it is an open cheque presented over the counter, and to request the indemnity

of the presenting banker if it is presented crossed. This attitude, which effectively strangles the non-transferable cheque at its birth, rests in theory on the purely personal nature of the contract between the immediate parties to such a cheque. The mandate calls for payment to the specified person alone, without which it has not been performed. Under existing law this throws on the paying banker an obligation which it is impracticable for him to perform.

To switch the emphasis of crossed cheque legislation from full negotiability to the opposite extreme would necessarily bring about a fundamental change in the statutory relationships of the paying and collecting banker. It is clear that the occasional indemnity which the collecting banker is now required to give when presenting a non-transferable cheque would have to be developed into a general (implied) warranty on presentation that the payee has been credited, or that the collecting banker accepts the consequences if he has been asked to credit someone else. Once a warranty of this sort were established, it would be a short step to the total abolition of endorsement of crossed cheques. The customary branding stamp of the collecting banker could serve as evidence of the warranty (or of the alternative responsibility). Paying bankers, instead of demanding as they must now, that all endorsements shall conform to a rigid code of formal correctness need not ask for any endorsement whatever.*

Examination of all cheques received (now rather perfunctory in many places) would be doubly necessary. Scrutiny of the expressed payee would be vital. On the other hand the collecting banker is also a paying banker in respect of a different set of cheques and would correspondingly find another section of his work relieved.

When under such a system as this a banker takes responsibility for collecting a non-transferable cheque for anyone but the payee he must for his own sake be assured of satisfactory recourse to his customer. His risk ob-

* Incidentally, the reform could be applied to all other forms of drafts collected by bankers. At the same time the opportunity could be seized to abolish once and for all the stamped receipts, certificates of existence and similar appendages to instruments which bankers have allowed to grow and at present have slight grounds for resisting.

viously arises should the drawer be able to show at a later date that the payee has never had the benefit of the remittance. Nothing could be better calculated to set up in banking a more careful selection of customers than now exists. Integrity, rather than means, would be the criterion of a desirable customer. A movement in this direction is overdue and would be deplored by nobody in banking—particularly as the improved status of the accepted account-holder would enhance the acceptability of cheques in general and thus contribute to an extension of banking habits.

Matters of Law

By Maurice Megrah

Marine Insurance.

IN October last, THE BANKER discussed the position of bankers claiming against British insurance companies in respect of cargoes lost by the scuttling of the German ships in which they were carried or by being taken back to Germany in those ships. The goods were insured by the German shippers with the British companies and were financed either directly or by way of pledge by British banks. The point at issue was whether the companies rightly interpreted s.50 (2) of the Marine Insurance Act, 1906, as giving them the right to repudiate the insurances on the ground that they were under no liability to the assignee banks—more, were prohibited from paying over to them by reason of the Defence Regulations. Several more cases bearing on marine insurance have since been heard,* but the facts in these cases had one fundamental point of difference from the others in that the insurances were effected in this country, so that s.50 (2) of the Marine Insurance Act, 1906, could have no application.

The *Middows* and other cases in question were of goods shipped in German ships, two of which were scuttled, while the third succeeded in returning to

* *Middows* v. *Robertson*, *Howard* v. *Kann*, and *Forestal Land, Timber and Railways Co.* v. *Rickards* (68 Ll. L. Rep. 45).

Germany. The goods were insured by British cargo owners with British underwriters, the policies containing what has been called a " frustration " clause :

> " Warranted free of any claim based upon loss of, or frustration of, the insured voyage or adventure caused by arrests, restraints or detainments of Kings, Princes, Peoples, Usurpers, or persons attempting to usurp power."

This clause formed the basis for the main defence of the underwriters—that there could be no claim for constructive total loss of the goods without a claim for loss of the voyage or adventure also, and that the voyage or adventure was lost owing to restraint from which the clause protected the underwriters. Hilbery, J., approved the argument and found that there was no loss for which the underwriters were liable. The Court of Appeal unanimously and emphatically reversed his decision on the ground that there could be a constructive total loss of the goods irrespective of loss of voyage and that therefore the " frustration " clause had no application.

As I pointed out in the previous article mentioned above, the German Government were in effect guilty of conversion as soon as the masters of the ships concerned acted on their Government's instructions to deprive the cargo owners of the goods. In the words of Scott, L. J. :

> " When pursuant to those orders the ship left its neutral port, if not before, that Government was guilty, if I may apply a metaphor from English common law, of converting the goods to its own use. When that happened, if not before, the result was for the plaintiff cargo owners under each policy a loss not merely of the voyage or adventure but of the goods themselves ; and that loss was one to which there attached the requisite attributes of a constructive total loss as laid down in s. 60 of the Act of 1906 ; provided always that the loss was proximately caused by a peril within the policy. If it was so caused it is one in respect of which the assured are, in my opinion, entitled to recover, wholly apart from any considerations of the loss of the voyage,"

and he held that the loss was covered. He continued :

> " No Judge, so far as I know, has ever countenanced the proposition that in insurance on goods the only constructive total loss recognised in law, either before or since the Act, is loss of the venture. In the case of certain perils enumerated in the ordinary Lloyd's policy, scheduled to the Act, it can hardly be doubted that a constructive total loss of the goods themselves

may arise when they are taken wholly out of the possession of the assured and his bailee—for example, by pirates, rovers or thieves. If there can be an actual total loss in such cases through 'irretrievable deprivation' under s. 57, I can see no reason why the law should not recognise a constructive total loss under s. 60 (1) where the goods are 'reasonably abandoned on account of their actual loss appearing unavoidable' or under sub-s. 2 'where it is unlikely that the assured can recover the goods' or 'the cost of recovering them would exceed their value when recovered."

MacKinnon, L. J., found Hilbery, J.'s view of the effect of the "frustration clause" "entirely erroneous":

"The Judge, however, has held that the claim is barred by this clause. He does so acting upon the idea that to establish any claim on a policy upon goods the assured must always allege a loss of the insured voyage as well as loss of or damage to the goods. Elementary considerations, I think, must demonstrate the error of that idea. If, on an ordinary policy on goods, without any added clause, the goods arrive at their insured destination but on the voyage have been damaged by sea perils, so that their damaged arrived value is half the sound value of like goods, the assured obviously has a claim for half the insured value. But Mr. Justice Hilbery would apparently give him nothing, because the goods have all arrived, and he cannot assert any loss of the insured voyage."

"I think it is unnecessary to discuss further this elementary misconception as to the nature of a policy upon goods. I would only add that, if the view of the learned Judge were correct, the assured under this policy must have accepted the most fatuous and worthless contract ever made by a sane man. The policy solemnly insures his goods against loss by war perils, and his being thereby deprived of them. But the frustration clause, upon the Judge's reasoning, would in every case of such deprivation that I can imagine make that promise absolutely nugatory."

Luxmoore, L. J., found himself "in complete agreement with the other members of the Court." Leave was given to appeal to the House of Lords, though MacKinnon, L. J., seemed to think that it might not be worth while. What the cases do not decide is whether pledgees would have been in any stronger position. Moreover, they unfortunately give no help in the problem discussed last October.

Disclosure to a Guarantor

The duty of a banker to a prospective guarantor of his customer's overdraft was dealt with at the end of July last year by Tucker, J., in the case of *Westminster*

Bank, Ltd. v. *Cond,* but has only recently been reported —in 46 Com. Cas. at p. 60. From the legal point of view the case contains nothing new, but it is of importance to banking in its reiteration of the law governing the question of disclosure and its citation of the relevant terms of the guarantee on which the action was brought. The point at issue was the guarantor's claim that he was discharged from liability by the bank manager's omission to inform him that the customer was already overdrawn at the time the guarantee was given, although it was obvious from the conversation that he was unaware of this material fact. With regard to disclosure His Lordship made the general statement that :

> " Mere non-disclosure of a material fact is not sufficient to give relief, and in the case of a bank guarantee it has been clearly laid down that the bank manager is under no duty to disclose the existence of a subsisting overdraft, unless he is asked a question which would necessitate an answer dealing with that matter ; but I think that it is also clear that it is the duty of a bank manager, when he is asked a specific question, to give a true, honest and accurate answer to any question which is directed to him which can be in any way material to the giving of the guarantee,"

and found as a fact that there were no grounds on which greater disclosure should have been made. In more detail, the defence alleged misrepresentation in that the bank, through its manager, led the guarantor to believe that the debtor would repay the advance at the rate of £2 10s. per week, and that he should have no difficulty in clearing it off within about three years. It was further alleged that the indebtedness of the guarantor had been discharged, before the issue of the writ, by virtue of the operation of the rule in *Clayton's Case.* Finally, there was a plea of the Statute of Limitations, which seems merely to have been mentioned in the judgment but not dealt with.

It is not necessary to go further into the question of misrepresentation for the reason stated above, that in this respect his Lordship found for the bank. The plea that the indebtedness had been discharged as a result of the operation of the rule in *Clayton's Case* was disposed of by the learned Judge, on the ground that the rule was excluded by the wording of the form of guarantee. This read as follows :

> " In the event of this guarantee being determined either by notice by me or my legal personal representatives, or by demand in writing by the bank, it shall be lawful for the bank to continue the account with the principal, notwithstanding such determination, and the liability of myself or my estate for the amount due from the principal at the date when the guarantee is so determined shall remain, notwithstanding any subsequent payment into or out of the account by or on behalf of the principal. Provided always that the amount for which I shall be liable under this guarantee shall not exceed three hundred pounds."

If it had not been for this clause in the guarantee his Lordship would have been " inclined to the view that the rule in

> " *Clayton's Case* ((1816) 1 Mer. 572, 605) might quite well have applied to the present circumstances; that is to say, one unbroken account running on and not ruled off, and no fresh account started. I think it may well be that in such circumstances the payments should or would have been regarded as appropriated according to the priority in order of entries on one side and the other of that account."

In arriving at his conclusion his Lordship cited Lord Selborne in *Sherry's Case* ([1883] 25 Ch. D. 692) to the effect that:

> " The principle of *Clayton's Case* ((1816) 1 Mer. 572, 605) and of the other cases which deal with the same subject is this, that where a creditor having a right to appropriate moneys paid to him generally, and not specifically appropriated by the person paying them, carries them into a particular account kept in his books, he *prima facie* appropriates them to that account, and the effect of that is that the payments are *de facto* appropriated according to the priority in order of the entries on the one side and on the other of that account. It is, of course, absolutely necessary for the application of those authorities that there should be one unbroken account, and entries made in that account by the person having a right to appropriate the payment to that account."

In *Sherry's Case* the account was broken, but not in the present case. However, the form of guarantee saved the bank.

I would suggest, incidentally, that when his Lordship at p. 74 of his judgment is reported as saying that the bank was not entitled to recover in respect of advances made " after the date of the guarantee," he means " after the date when the guarantor was called upon to pay."

Courts (Emergency Powers)

THE BANKER for December last gave a résumé of decisions arising from s. 1 (4) of the Courts (Emergency Powers) Act, 1939. A further important addition has now to be made—one incidentally which a legal contemporary in a recent issue described as being against the spirit of the Act, even if grammatically accurate in its interpretation of the terms of the section.

The National Provincial Bank were mortgagees of property charged by a third party as security for the debt of one of the bank's customers. They wished to realise and the question arose whether application for the Court's consent was necessary in view of the fact that the mortgage instrument contained no undertaking on the part of the chargor to be responsible for the debt. It was argued for the bank that the chargor was not "liable to satisfy the judgment or order, or to pay the rent or other debt, or to perform the obligation" within the meaning of the section, which reads as follows:

> "If, on any application for such leave as is required under this section for the exercise of any of the rights and remedies mentioned in subsections (1), (2) and (3) of this section, the appropriate court is of opinion that the person liable to satisfy the judgment or order, or to pay the rent or other debt, or to perform the obligation, in question is unable immediately to do so by reason of circumstances directly or indirectly attributable to any war in which His Majesty may be engaged, the court may refuse leave for the exercise of that right or remedy, or give leave therefor subject to such restrictions and conditions as the court thinks proper."

Farwell, J., agreed with the bank's view.

Though the point is not relevant it is interesting to note that such a form of charge came before the same Judge in 1938, in *Re Conley* ([1938] 2 All E. R. 128). The Court of Appeal, in reversing his decision, held that a person who deposits security for the advance of another and does not undertake any personal liability for the debt secured was nevertheless a surety or guarantor within the meaning of s. 44 of the Bankruptcy Act, 1914.

Life Assurance in 1940

By F. G. Culmer

BRITISH Life Offices will be appraised not so much for their new business achievements in 1940 as for the magnificent way in which they have surmounted the many difficult obstacles in their path. In war-time, the effecting of new assurances is a secondary consideration compared with maintaining to the fullest extent the security underlying the vast number of existing policies held by the public. The successful way in which all the life offices have preserved this essential security is the outstanding feature of insurance in 1940. This achievement has been made possible by the sound principles upon which the practice of life assurance has been based in this country ever since its foundation. From their beginnings, the life offices have without exception consistently built up adequate resources as a guarantee against the policies which they have issued from time to time. In spite of a generous allocation of bonuses during favourable cycles of years in the past, they have studiously refrained from distributing their profits anything like up to the hilt. Thanks to this accumulation of reserves over a long period of years, they are now in the comfortable position of being able to meet their liabilities in war-time without any difficulty.

From the figures of ordinary life assurance so far available, the sums assured last year fell short of the previous year's total by over 50 per cent. This decline was, of course, in no way due to any reluctance on the part of the offices to undertake new business. Increased taxation, higher costs of living, borrowing claims of the Government, and the general state of uncertainty have all tended to reduce the means of individuals, and to make them less inclined in the circumstances to embark in new commitments. Against all these material factors there can be offset the undoubted attractions of life assurance, both from a protective and investment point of view. A taxpayer now is allowed, subject to the usual limitations, rebate on his premiums of 3s. 6d. in the £, which to that extent reduces the cost of his assur-

ance. It is a point which can justifiably be brought to the attention of potential policy-holders, for it constitutes a direct incentive to take out life assurance. The actuality of war on the home front has indeed enhanced the value of a life policy.

Before the war, policies issued by the life offices were almost universally without restriction in respect of war risks, for members of the armed forces as well as for civilians in this country. While mortality in the forces is fortunately not comparable with that in the previous war of 1914–18, casualties are of considerable number. In addition, many civilians holding pre-war unrestricted policies have been killed as a result of enemy action in this country. Upon the outbreak of hostilities the offices found it incumbent in the interests of existing policy-holders to impose restrictions limiting the cover in war conditions for civilians. There is a considerable divergence of opinion among the offices as to the terms quotable for this risk, but the average rate charged is £1 per cent. per annum under a non-profit policy, and 10s. per cent. per annum in the case of a with-profit policy. No doubt future action by the life offices will be guided by the weight of experience.

Considerable interest has been aroused by a recent suggestion that the Government should sponsor some form of insurance for civilians against the risks of enemy attack. One argument in favour of such a move is that it is more important for the lives of persons to be insured than the property they own. While this seems on the face of it a reasonable contention, it is not so easy to arrive at a common basis for the assurance of lives in this connection. A difference would obviously have to be made between people of limited responsibilities and others with large liabilities. If the scheme were compulsory it would presumably involve the insurance of a fixed minimum amount.

The future trend of bonuses, invariably a lively topic of discussion, is of especial interest at present in view of war-time problems. It is noticeable that the offices have adopted a somewhat individualistic attitude towards this question. They are all, of course, similarly affected by the prevailing conditions, which demand a curtailment, if not a postponement, of the bonus distributions.

But there is evident a universal desire to accord holders of with-profit policies the most generous treatment which circumstances allow.

The policy of postponing valuations until the end of the war appears to be growing in favour, which is not surprising in view of the almost insuperable difficulties with which the offices are confronted. The Norwich Union, Phœnix and Atlas have all adopted this course. In the meantime, a reduced bonus will be allotted to policies becoming claims, either by death or maturity. The Phœnix, instead of making a declaration of reversionary bonus for the quinquennium 1935-40, will pay an interim bonus of 30s. per cent. per annum for that period in respect of policy claims arising, and of 20s. per cent. per annum in respect of premiums paid since December 31, 1940. The Norwich Union is also making provision for bonus additions to policies becoming claims. The Atlas is maintaining a compound interim rate of £2 2s. per cent., payable in 1941 on account of the years 1938 and 1939, but is not allotting an interim bonus in respect of 1940.

The Royal Exchange Assurance has declared a reversionary bonus on participating policies at the rate of £1 per cent. per annum of the sum assured for the five years ending December 31, 1940. For the following five years the interim bonus will be at the same rate. It has also been decided to pay in respect of such policies a special additional interim bonus at the rate of 10s. per cent. of the sum assured for each full year's premium paid in the five years 1936-1940. These interim bonuses are subject to alteration at any time in the interests of prudence. The National Mutual Life has postponed its biennial valuation and distribution of profits due to have taken place at the end of 1940. Substantial profits, it is said, have been made during the two years, but the society deems it prudent in the circumstances to conserve its resources. The decision has been made without prejudice to the question of retrospective bonuses for 1939 and 1940, whenever the postponed valuation is made. Meanwhile interim bonuses in respect of fully participating policies are maintained at the rate of 20s. per cent. and on low premium participating policies of 7s. 6d. per cent. These interim bonuses will be

calculated on the sum assured and existing bonuses in respect of the premiums paid during 1939, 1940 and 1941. The Scottish Life has made its quinquennial valuation due at the end of last year, and has declared a bonus to its policyholders who are entitled to participate in profits on the " full profits " scale at the rate of £1 per cent. per annum for each year of the quinquennium. The company also states that it is carrying forward a large margin of surplus to meet unforeseen contingencies.

As to the future level of bonuses, none can profess to visualise the situation with any clarity. If the war lasts for years the probability is that bonuses will be on a very small scale, if they are not ultimately suspended altogether for the duration of hostilities. If the war drags on for any length of time, it is extremely unlikely that post-war bonuses will approach the high standard of the past two decades. Experience has proved how great are the recuperative powers of the life offices, but it is patent that with interest rates at such a low level, coupled with the devastating rise in taxation and the inevitable increase in mortality, the chief sources whence bonuses are derived are jeopardised to a considerable extent. There is one ray of hope for participating policyholders. Life offices which are postponing their periodical valuations are carrying forward large profit surpluses as a provision for possible contingencies. Bonuses are normally distributable from these surpluses, and it may be that in time to come, perhaps not very far hence, these accumulations of profit will again become available for their original purpose.

In the following table are given the figures of new ordinary life assurance business of the home offices for the past year. Comparison is made with the corresponding figures for 1939, which included the first four months of the war, and also with 1938, the last complete pre-war year. The total net sums assured in 1940 amounted to £109,063,604, showing a decline of £60,562,182, compared with 1939, and as much as £100,500,044, compared with 1938. Up to the time of going to press, the figures of the Sun Life, Yorkshire, National Provident, Scottish Equitable and Blackburn were not available. In 1939 these five offices' net new Assurances totalled £20,536,089.

HOME OFFICES—	Net sums assured in 1940 £	Increase (+) or Decrease (−) as compared with 1939 £	1938 £
Alliance	†1,225,000	−2,569,227	−2,980,415
Atlas	2,025,000	− 974,429	−2,042,149
Beacon	343,619	− 523,843	− 947,732
Blackburn	‡	‡	‡
Britannic	2,099,000	− 475,348	−1,323,721
British Equitable	410,298	− 236,831	− 460,932
British General	277,616	− 294,903	− 680,245
Caledonian	627,397	− 827,375	−1,475,352
Clerical, Medical & General	785,000	−1,183,263	−1,880,301
Commercial Union	2,899,208	−1,819,814	−3,092,112
Co-operative	1,572,020	−1,103,817	−1,703,265
Eagle Star	7,600,000	+1,764,127	−2,713,261
Equitable Life	†860,000	− 909,257	−1,168,918
Equity & Law	597,471	−1,250,678	−2,915,035
Friends' Provident & Cent'y	1,359,608	− 650,748	−1,123,758
General Life	811,559	− 740,260	−1,860,203
Gresham Life	†1,478,000	−1,185,152	−2,337,391
Guardian	824,000	− 538,953	− 895,379
Law Union & Rock	1,411,192	− 644,248	−1,400,278
Legal & General (ordinary)	4,299,994	−2,128,501	−2,994,106
Ditto (decreasing term and group)	5,398,654	−1,854,139	−3,882,401
Life Association of Scotland	838,254	− 473,065	− 882,847
Liverpool & London & Globe	†1,392,000	−1,052,917	−1,459,415
Liverpool Victoria	1,699,623	− 930,135	−1,871,972
London Assurance	1,434,879	− 665,379	−1,244,302
London Life	666,449	−1,343,920	−2,034,464
London & Scottish	712,627	− 601,730	− 875,748
Mutual Property	*731,176	− 9,679	− 119,683
National Farmers' Union	650,728	− 97,010	− 25,729
National Mutual	431,667	− 169,543	− 668,645
National Provident	‡	‡	‡
North British & Mercantile	1,789,361	−4,099,811	−3,537,566
Northern	703,114	− 628,459	−1,078,093
Norwich Union	†6,500,000	−3,801,148	−5,255,700
Pearl	5,785,761	− 875,282	−2,444,749
Phoenix	†2,000,000	−2,000,000	−2,967,072
Provident Mutual	†1,681,799	−1,429,445	−1,530,347
Prudential	†18,800,000	−6,246,536	−9,524,990
Refuge	4,873,322	−1,549,403	−3,021,556
Royal	†2,970,000	−1,504,453	−2,206,871
Royal Exchange	2,220,000	− 745,264	−2,138,579
Royal London Mutual	2,578,269	−1,818,228	−2,947,784
Scottish Amicable	925,000	− 760,779	−1,206,076
Scottish Equitable	‡	‡	‡

(*Continued overleaf*)

(*Continued from p. 207*)

	Net sums assured in 1940	Increase (+) or Decrease (−) as compared with 1939	1938
	£	£	£
HOME OFFICES—			
Scottish Life	697,345	−1,025,293	−1,619,404
Scottish Provident ..	1,401,791	− 921,097	−1,756,728
Scottish Temperance ..	614,930	− 546,283	− 959,729
Scottish Union & National	†474,341	− 890,748	−2,065,027
Scottish Widows	2,388,000	−1,088,339	−2,852,530
Standard Life	2,160,934	−1,511,324	−2,488,605
Sun Life	‡	‡	‡
United Kingdom Provident	2,615,725	−1,438,319	−2,500,665
University Life	116,973	− 97,564	− 223,152
Wesleyan & General ..	528,000	− 646,276	− 970,122
Yorkshire	‡	‡	‡

* Gross. † Approximate. ‡ Not yet available.

It will be seen that there is an uninterrupted sequence of declines right through the list, with the single exception of the Eagle Star, which shows a substantial gain on the year in its new business figures. It is not clear from the company's announcement whether or not the total of £7,600,000 includes group life business. In any case, this is a good achievement, and places the Eagle Star second in volume of business to the Prudential, which retains the premier position with a considerably reduced total of £18,800,000. This, as usual, includes oversea business, but not group business. Norwich Union and Legal and General are again well to the fore. Other offices in the ordinary-industrial group which make a particularly good showing are the Pearl and the Refuge. The seven leading members of this group have a total new business aggregate of £37,363,975, which, however, shows a marked falling off as compared with the two previous years, being £12,543,208 below 1939, and £22,104,894 below 1938. The London and Manchester is not included in this group, because the company's year does not conclude before the end of March.

Sufficient details are not available to print a reliable diagnosis of the annuity position. It is well known that there was a further considerable falling off last year in the demand for annuities. For one thing, the terms offered by the life offices are necessarily less favourable than they were twelve months or more ago. Another

reason is doubtless the competitive counter-attraction of the new War Loans.

The Dominion offices have played their customary prominent part in the new business campaign, both in this country and overseas. In particular, the administration of the Sun Life of Canada in the United Kingdom continues to achieve marked success. Total new ordinary life business last year amounted to £3,731,759. This is exclusive of group and sinking fund policies, and represents a decrease of 17½ per cent. Over £560,000 was received for the purchase of annuities, and payments to annuitants again exceeded £1,000,000. The average sum assured under new policies was over £600. During 1940, £2,500,000 was distributed among living policyholders in respect of income settlements under matured policies, capital sums at maturity, etc., and £700,000 to beneficiaries as a result of death claims. The total life business in force in this country remains at £76,000,000. Other Canadian and Australian offices also met with appreciable success.

	Net sums assured in 1940	Decrease compared with: 1939	1938
DOMINION OFFICES—	£	£	£
Australian Mutual Provident	16,927,963	5,146,893	5,035,639
Ditto U.K. only	‡	‡	‡
Canada Life	7,480,700	563,953	3,899,661
Ditto U.K. only	991,960	579,840	884,633
Colonial Mutual (Australia)	†8,000,000	2,500,000	2,561,415
Ditto U.K. only	*1,554,139	924,530	1,231,491
Confederation Life (Canada)	9,500,000	236,034	168,768
Ditto U.K. only	1,056,000	260,000	159,000
Crown Life of Toronto	7,100,000	40,000	‖*430,000*
Ditto U.K. only	268,090	84,010	159,010
Imperial Life of Canada	4,676,000	406,123	514,000
Ditto U.K. only	§345,206	335,427	417,747
Manufact'rs Life of Canada	10,340,033	1,194,264	1,497,790
Ditto U.K. only	773,637	202,408	331,657
Mutual Life & Citizens of Australia	†6,640,000	3,518,497	3,366,493
Ditto U.K. only	193,763	70,078	86,439
Nat. Mutual of Australasia	8,596,926	1,561,571	2,921,887
Ditto U.K. only	‡	‡	‡
Sun Life of Canada	34,803,590	5,073,236	4,774,060
Ditto U.K. only	*3,731,759	783,836	687,552

* Gross. † Approximate. ‡ Not available. § Inclusive of Annuities. ‖ Increase.

Group life business, though considerably interfered with by the war, is still by no means a suspended force. Only a week or two ago, a pension and life assurance scheme was arranged by the Eagle Star for one of the big multiple concerns, by which altogether a total of about £1,000,000 in life assurance protection is afforded to the dependants of employees. The Legal and General and one or two other offices specializing in this class of business have also maintained a considerable activity in this direction.

Apart from forms of assurance directly associated with the war, there have been some introductions of new types of policies during the past year. These have had for their commendable object the furtherance of the sale of War Loan for the Government. More recently, several offices have supplemented their War Loan policies with schemes designed for the dual purpose of purchasing 3 per cent. Savings Bonds and providing life assurance cover. Many millions of pounds have been subscribed to the War issues by the life offices from their available funds, and in this and various other ways these offices have helped materially in the war effort. A much appreciated concession was granted to the life offices by the Government in limiting their income-tax liability to 7s. 6d. in the £. Even at this rate of tax, a gross yield of 2½ per cent. on War Bonds provides a net return of only £1 11s. 3d. per cent., whereas the rate now used in the calculation of existing premiums varies between 3 and 4 per cent. The life offices are, of course, earning a higher average rate owing to their funds having been invested in previous years at a uniformly higher rate of interest, but this does not make new business any the less unprofitable. A welcome feature towards the end of last year was the substantial recovery in capital values of fixed interest securities. Whatever the future may hold, the sound position of the life offices and their proved ability to continue to function successfully will remain a source of general satisfaction.

International Banking

German Penetration in the Balkans

FOREIGN banking activity is likely to decline further as a result of the progress of German expansion in South Eastern Europe. Rumania has, of course, been for some time past entirely under German control, but the severance of diplomatic relations clarified a somewhat obscure position. Some time ago the Rumanian accounts in London were already blocked, but now the transfer of funds to Rumania has been definitely forbidden. It is expected that sooner or later Rumanian assets in this country will have to be declared or surrendered to the Custodian of Enemy Property. The amount of unsecured British banking claims in Rumania is negligible. On the other hand, the volume of official and private Rumanian assets in this country is known to be substantial.

In spite of the German infiltration into Bulgaria, no steps have so far been taken to treat the country as enemy-occupied territory from a banking point of view. Should the process of infiltration continue, however, a stage will sooner or later be reached at which the Treasury would have to take action similar to that taken in the case of Rumania. The banks are not likely to suffer any losses through developments in Bulgaria, for there are practically no unsecured credits. On the other hand, Bulgarian banking assets in this country are believed to be also small.

In Yugoslavia the political situation remains obscure, and nothing is known about the outcome of the recent Berchtesgaden visit of the Prime Minister and Foreign Secretary. Conceivably, this country may avoid coming under direct German occupation, in which case her position, from the technical banking point of view, will remain similar to that of Hungary. While in law there is nothing against trading with the latter country, in practice it is virtually impossible. Meanwhile the Germans have recently expanded their banking interests in Yugoslavia, in connection with the increase of the capital of the General Yugoslav Banking Company of Zagreb to 100,000,000 dinars; the new shares of

40,000,000 dinars have been taken over by German banking interests. The new board consists of seven Germans, three Yugoslavs and one Swiss. The chairman is the German Consul General of Belgrade.

Growing Inflation in France

The Vichy Government's advances from the Bank of France are increasing on a spectacular scale. The full figures are not available, but the special advance for the payment of occupation costs, which was originally fixed at 50 milliard francs, increased to 85 milliards by January. There is a growing uneasiness among French people regarding the prospects of the franc, and there is a strong demand for all foreign securities which are still obtainable, especially for Kaffirs. There was a boom in these shares on the Lyons Bourse. Financial activities in that centre induced many leading French banks, which removed their headquarters from Paris to Vichy or Clermont-Ferrand, to establish their head offices in Lyons, though some of them preferred Marseilles. The Banque de Paris et des Pays Bas and the Banque de l'Union Parisienne decided to create permanent branch offices in Lyons.

Belgian Gold Reserve

Much indignation was caused in banking circles by the disclosure that the Vichy Government had decided to return to Brussels the gold reserve of the National Bank of Belgium, which was deposited with the Bank of France before the invasion, and was evacuated to Dakar contrary to the bank's instruction that it should be sent to London. The amount involved is large (about £65,000,000), though the greater part of the National Bank's gold is safe in London or New York. The Belgian Government has filed an action in the United States, seeking to attach a corresponding amount of French gold deposited in the United States. The position is somewhat similar to that of the Czech gold surrendered by the Bank for International Settlements to the German authorities in 1939. In both instances the instruction for the surrender of the gold were given by its owners under duress. It is understood that the Vichy Government yielded to continuous German pres-

sure when following the instructions given, also under German pressure, by the National Bank, whose Governor, M. Janssen, returned to Belgium. Part of the gold is understood to have already been surrendered to General von Falkenhausen, the head of the German occupation authorities in Belgium.

Forced Loan Threat in Holland

In Holland, the German occupation authorities are anxious to keep up the fiction that the country is administered by the Dutch authorities. Nominally, the Netherlands Bank remained in charge in monetary matters, and the gold collected from private holders under instructions from the German authorities was added to the Bank's gold reserve. (It represents the only gold in possession of the Bank, for its entire gold holding at the time of the invasion was sent abroad in good time.) In practice, the gold is, of course, at the disposal of the German authorities and is in fact drawn upon. Another instance showing the extent to which Dutch financial policy is under German control is the threat of a forced loan, included in the prospectus of the recently issued 4 per cent. ten-year loan of 500,000,000 guilder. The prospectus stated that, if the whole amount were not covered, the deficiency would be covered by the issue of 2½ per cent. 40-year annuities. The Dutch authorities would never have inserted such a clause without being forced to do so. Steps have been taken to register all British, allied, and neutral holdings of Netherlands Government securities. The object is to prevent the collection of interest on securities seized by the Germans in Holland. With the same purpose in view the payment of interest on Dutch dollar loans has been temporarily suspended.

Correspondence

To the Editor of THE BANKER.

"COSTLESS CREDIT."

DEAR SIR,—*Re* the article under above title in last month's issue of THE BANKER, as to the suggestion that the State could effect a substantial saving in its interest bill if deposit interest were abolished, and Current Account customers forced to pay higher service charges, might I make the following observations there anent? As regards the banks, I cannot but think that even allowing the interest is small on deposits, at present not more than 1, or 1½ per cent., that rate is better than nothing.

As is stated by the writer of the article, the abolition of deposit interest would obviously cause a large scale transfer of deposits to the Savings Banks, and other institutions, and these deposits, it may safely be predicted, would in these circumstances never come back.

Seeing that their deposits are the life-blood, so to say, of the banks, and that they enable the latter to assist the Government to such an extent at the present time in the fight for victory, we should, I think, leave well alone. Further, we should more than ever prize our Banking System, having regard to the latest results, and trust the wise and experienced men set over it, feeling assured that all of them have the best interests of the nation at heart.

I am, etc.,

AN EX-BANK AGENT.

[We would point out that our article actually rejected the abolition of deposit interest as likely to increase the Government's interest bill instead of reducing it. Nothing more could usefully be done, we suggested, than to see that all accounts covered their cost. For the rest, it was held, the Treasury deposit system is the cheapest practicable form of borrowing without radical changes in our financial methods as a whole.—*Ed.* BANKER.]

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Obituary

Sir Robert Boothby

The death has occurred in Edinburgh of Sir Robert T. Boothby, father of Mr. Robert Boothby, M.P.

Sir Robert, who was 69, was well known in Scottish banking and insurance circles; he was a director of the Bank of Scotland, manager of the Scottish Provident Institution and chairman of Scottish Associated Life Offices and the Insurance Institute in Edinburgh.

Mr. J. F. W. Deacon

The death of Mr. John Francis W. Deacon at the age of 81 has removed the last representative of an old banking family, although the name still survives in the title of Williams Deacon's Bank. Although Mr. Deacon had not been seen in the City for some years, he had remained a director of the bank until his death and had maintained his charitable interests and associations with the theological colleges of Oxford and Cambridge.

Appointments & Retirements

Mr. Frank Newcomb

The discount market will lose yet another of its most prominent members through the retirement of Mr. Frank Newcomb from the management of Alexanders Discount. Mr. Newcomb, whose age is 75, has for some years past been regarded as the " Father " of the market, though he spent many years in general banking (as assistant manager of the Credit Lyonnais and London manager of the National Bank of Egypt) before joining Alexanders in 1909.

The management of Alexanders will be taken over jointly by Mr. E. J. Bowie and Mr. A. Macnaghten, hitherto sub-managers.

Barclays Bank

The retirements are announced of Mr. W. N. Seeley, secretary, and Mr. J. H. Beckwith, chief accountant, both

of whom have completed 46 years' service in the bank. Mr. P. J. Diboll, assistant secretary, has been appointed secretary, and Mr. F. G. Bacon, deputy chief accountant, has been appointed chief accountant.

Barclays Bank (D.C. & O.)

Mr. A. T. Dudley has been appointed an assistant general manager of the bank and seconded for duty as a local director in New York.

Mr. A. R. Bothwell has been appointed chief accountant in succession to Mr. E. L. Neynoe, who has retired.

Mr. P. J. Froome has been appointed a local director at Circus Place Office, on relinquishing the management of the branch, in which he will be succeeded by Mr. C. D. Alcock.

Guaranty Trust Company of New York

Mr. William C. Potter has relinquished his position as chairman of the Guaranty Trust Company of New York, and has been elected chairman of the Executive Committee of the board. Mr. W. Palen Conway has been elected chairman and Mr. Eugene W. Stetson president. Mr. J. Luther Cleveland will take over the duties hitherto performed by Mr. Stetson.

Mercantile Bank of India

Sir John Hay, of Guthrie and Company, has joined the board of the Mercantile Bank of India to fill the vacancy caused by the death of the late Lord Abertay.

Union Bank of Scotland

Mr. William A. Thomson, agent at Gourock branch, has retired and is succeeded by Mr. Hamilton Russell, accountant at that branch.

Mr. W. F. Smith, agent of Hyndland branch, Glasgow, has retired and is succeeded by Mr. A. D. Smith, accountant at Union Street branch, Glasgow.